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Forever Frugal?
*2010 U.S. Consumer
Survey Confirms
Persistent Frugality*



Contact Information

Chicago

Paul Leinwand

Partner

+1-312-578-4573

paul.leinwand@booz.com

Marcelo Tau

Principal

+1-312-578-4576

marcelo.tau@booz.com

Cleveland

Kasturi Rangan

Principal

+1-216-902-4258

kasturi.rangan@booz.com

Dallas

Andrew Clyde

Partner

+1-214-746-6566

andrew.clyde@booz.com

New York

Matthew Egol

Partner

+1-212-551-6716

matthew.egol@booz.com

San Francisco

Nick Hodson

Partner

+1-415-627-4276

nicholas.hodson@booz.com

EXECUTIVE SUMMARY

This year's Booz & Company survey of U.S. consumers reveals that consumers continue to feel they are on shaky ground, and their purchasing behaviors reflect this sentiment. An economic cloud, fueled by high unemployment and feelings of uncertainty even among those who are employed, hangs in the air, causing consumers to continue deferring spending on discretionary items and trading down on essentials. The longer these behaviors, which were initially born of necessity, persist, the more likely they are to accelerate and perhaps become permanent, particularly in those areas where consumers feel they have little to lose. The task for consumer products companies and retailers in the months ahead will be to monitor and understand in detail the evolving behaviors of various consumer segments and to formulate responses to these behaviors category by category.

THE RESULTS ARE IN

In August 2010, Booz & Company conducted its annual online survey of roughly 2,000 consumers across the U.S. Among the findings: Consumers continue to defer spending on discretionary items and to trade down on essentials. In fact, most consumers cut back spending even more this year than last. Although the recession may have officially ended in September 2009, consumers remain skeptical and uncertain.

In short, the habits adopted by U.S. consumers during the economic crisis of 2008–2009 have continued and even deepened in some cases. Our 2009 survey had revealed that U.S. consumers were more willing than in the past to trade off brand and convenience for a better price, and

defer spending on more-discretionary categories.¹ Most important, consumers had indicated they would continue these “frugal behaviors” in 2010.

This year we set out to understand whether consumers were following through with their intentions. We sought to understand whether the recent “great recession” had changed their behaviors for the foreseeable future, as the Great Depression had done for their parents or grandparents. Overall, they reported that it had.

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essential items such as household items and groceries (see Exhibit 1).

Those behaviors, though, vary depending on the consumer segment. For example, in discretionary categories such as consumer electronics and apparel, approximately

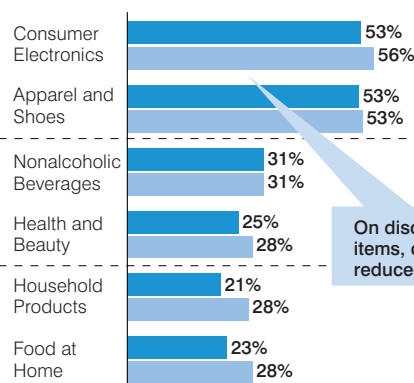
50 percent of respondents said they had reduced their expenditures in the past 12 months. However, in nondiscretionary categories, less-wealthy consumers (those with household incomes less than US\$100,000 per year) were much more likely to trade down in brands

or prestige than wealthier consumers. For example, in household products, 41 percent of less-wealthy consumers traded down to further reduce spending last year, whereas only 30 percent of more-affluent consumers took that step.

Exhibit 1
Consumer Spending Patterns

SPENDING LESS

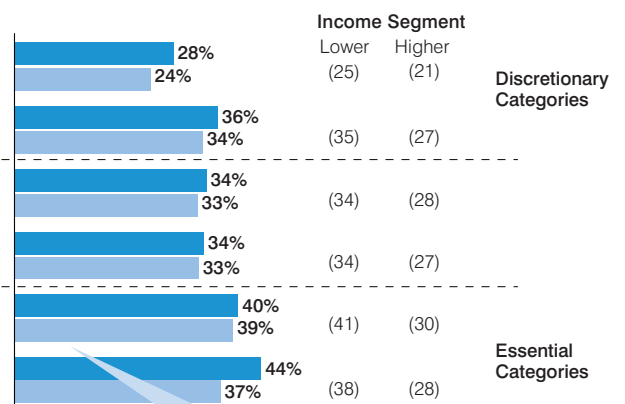
Over the past 12 months, I reduced my expenditure in this category¹



On discretionary items, consumers reduced spending

TRADING DOWN

Over the past 12 months, I switched to less-expensive brands in this category¹



On essential items, consumers traded down

¹ Percentage of respondents who agreed or strongly agreed.
Source: Booz & Company Consumer Spending Surveys 2009 and 2010

ECONOMIC UNCERTAINTY CONTINUES

Our results are consistent with the underlying economic difficulties still facing many Americans. The unemployment rate is stuck above 9.5 percent and millions more workers remain concerned about job insecurity. In this economic climate, consumers continue to pay down debt and beef up their savings. Although the financial situations of some consumers improved during the past year, those in lower-income brackets are still significantly suffering the effects of the recession (see *Exhibit 2*).

In this environment, there is little reason to believe that consumers will give up their frugal behaviors in the short term. Consumers remain cautious, especially following their disappointment with the slow pace of improvement over the past year. In our 2009 survey, 32 percent of consumers expected that they would be better off in the coming year (i.e., 2010). However, fast-forward to today and only 14 percent report actual economic progress during the past year. In this year's survey, only

roughly one-third again expressed optimism for the coming year—it remains to be seen whether they will be similarly disappointed (see *Exhibit 3*).

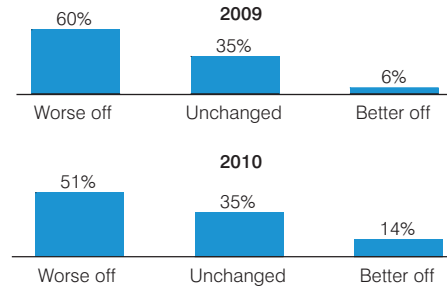
A subset of about 14 percent of consumers admit to having become worse off over the last year but are optimistic about the coming year. This segment of optimistic consumers may serve as a helpful guide to what to expect from consumers as a whole as the economy fully recovers. In contrast, the frugal behaviors of those consumers who remain reticent about the future may still be driven by their recession mentality. Interestingly, despite this segment's optimism about the future, they show little tendency to increase expenditures in the coming year: Less than 10 percent of them plan to trade up in brands. And only 15 percent of them plan to spend more in discretionary categories—despite having deferred purchases for roughly two years already (see *Exhibit 4*).

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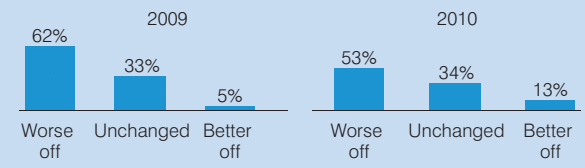
Exhibit 2
Impact on Household Financial Status

OVERALL FINANCIAL SITUATION

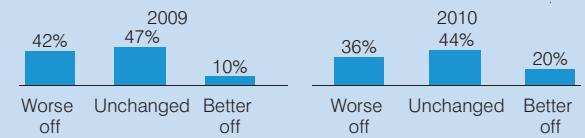
What has been the impact on your household's financial status over the past year?



Income: Lower than \$100,000



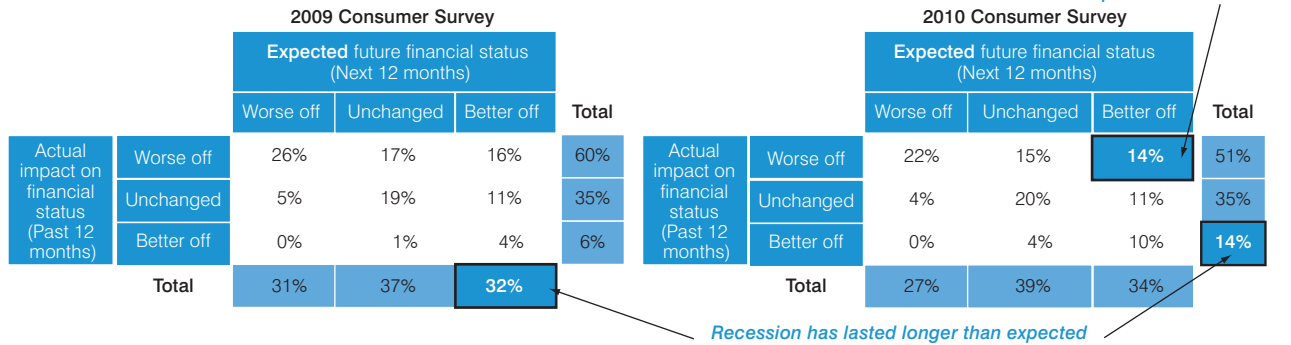
Income: Higher than \$100,000



Source: Booz & Company Consumer Spending Surveys 2009 and 2010

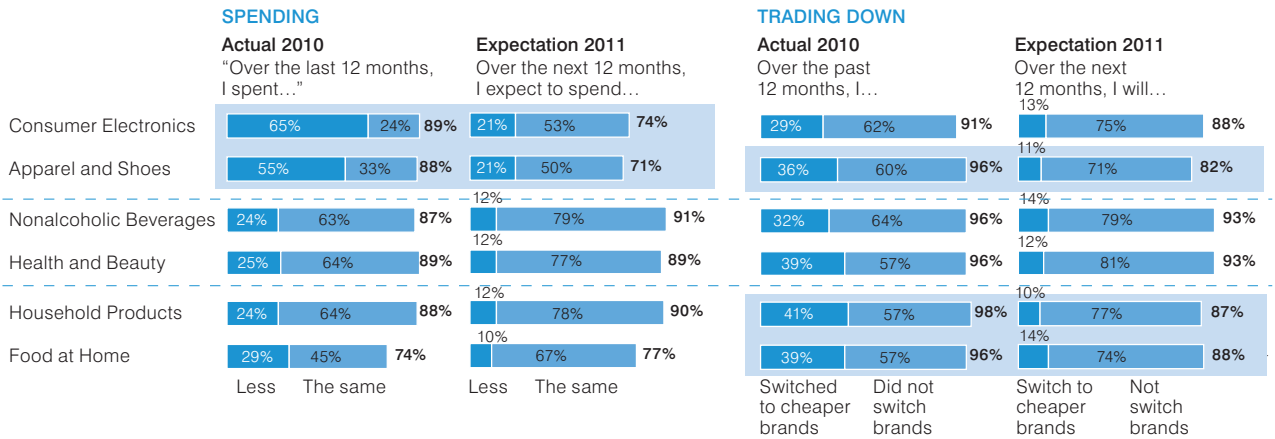
Exhibit 3
Expected and Actual Impact on Financial Status

FINANCIAL SITUATION AND CONSUMER CONFIDENCE
(% OF RESPONDENTS)



Source: Booz & Company Consumer Spending Surveys 2009 and 2010

Exhibit 4
Consumer Behavioral Changes



Source: Booz & Company Consumer Spending Surveys 2009 and 2010

WHAT'S NEXT FOR CONSUMERS?

During recessions, consumers tend to experiment with new behaviors to save money: trying cheaper brands, exploring new channels and formats, or even learning to do without whole categories of purchases. If these “experiments” are successful—a phenomenon we call “unpunished experimentation”—the behavior tends to stick, even after economic conditions improve. For example, run-ups in gas prices tend to cause consumers to switch to lower-price gasoline brands. When their cars continue to

run reliably they see little point in switching back when gas prices fall. It is this process of unpunished experimentation that causes recessions to accelerate trends already under way.

The critical question for consumer goods manufacturers and retail companies is whether consumers will return to less-frugal behaviors as the economy improves, or whether their recession-era experiments with new behaviors proved successful enough to continue.

We believe the answer is category dependent. In the most-discretionary categories, this experimentation typically involves going without—deferring expenditures until conditions improve. As the economy stabilizes, we expect expenditures in these categories to pick up. However, to the extent that unsustainable levels

of consumer credit fueled the boom in discretionary purchases between 2002 and 2007, it is unlikely that spending will return to previous levels until economic growth and rising real incomes fill the gap. Today, by almost all measures, the U.S. consumer is tapped out.

In other categories, consumers may experiment by switching channels (for example, to mass merchants from supermarkets or to online in search of better bargains), or switching to cheaper brands. In some cases consumers will feel that the new behavior involved an undesirable trade-off. For example, in their brand choices in apparel, cosmetics, and alcoholic beverages, consumers may feel that they were forced—out of necessity—to settle for products or brands they would not normally choose. Similarly, when shopping for groceries they may

choose cheaper but less-convenient stores. In these cases, we expect that as conditions improve, consumers will steadily return to their former behaviors.

Clothing buyers, for example, who switched from Banana Republic to Gap or Old Navy may perceive that Old Navy offers lower quality or less-pleasing designs. Despite saving money, these consumers will likely trade back up when the economy recovers. The same may be true for

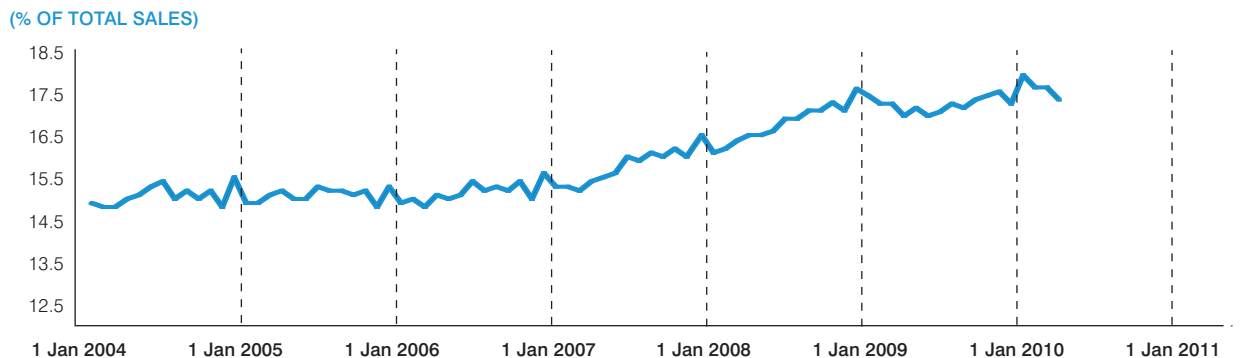
those who buy groceries at “big box” discounters, which offer better prices but are typically farther from home than the local grocery store.

In other categories—household products, over-the-counter medicines, and food at home—the recession-driven experiment has produced a favorable outcome. Consumers may find that their modified brand and outlet choices are entirely satisfactory to them (with the added benefit of being cheaper). They willingly accept these

alternatives because they perceive they are buying an equivalent-quality product or shopping experience but at a lower price. In these categories, we expect the frugal behaviors acquired during the recession will become ingrained and sustained.

One good example of unpunished experimentation is private label items at the supermarket. Private label penetration has grown from 15 percent before the recession to more than 18 percent of total sales

Exhibit 5
Private Label Penetration



Source: Nielsen; Booz & Company

in 2010 (see Exhibit 5). When the economy rebounds, we expect private label sales will remain strong and branded consumer packaged goods may find it difficult to regain their lost market share.

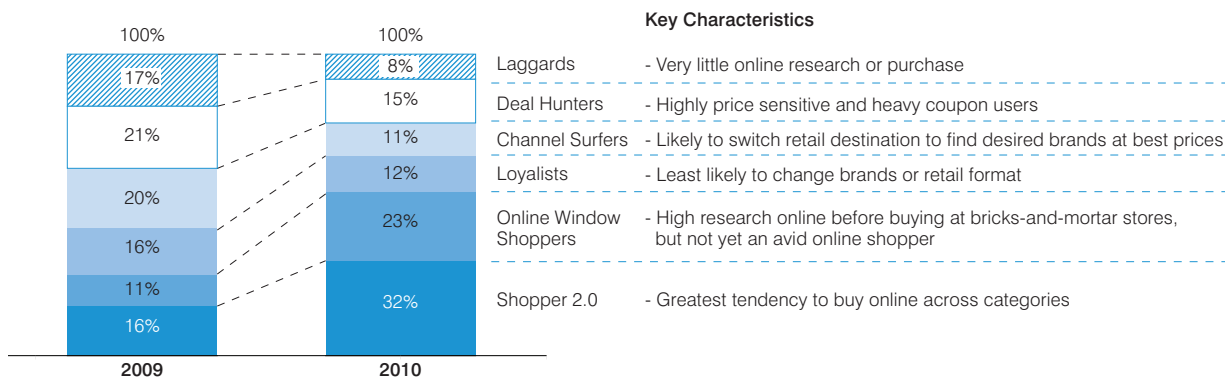
Another example may well be in online shopping. As cash-strapped consumers searched for bargains during the recession, they discovered convenience and often lower prices available on the Internet. Indeed, our research this year indicated a dramatic increase of consumers leveraging the online channel to research or

purchase. Shopper 2.0 consumers, those who consistently buy online, and Online Window Shoppers, those who research online before buying, increased significantly versus last year (see Exhibit 6). Apparently, the recession-driven search for bargains has led significant numbers of consumers to make their first online purchase, or to try online offerings in new categories such as apparel and shoes, for example, rather than just books (e.g., 16 percent of consumers consider the online channel their primary destination for buying apparel/clothing versus only

6 percent last year).

In short, the impact of the brutal recession of 2008–2009 has resulted in lasting changes in consumer behaviors, and disruptive changes in the consumer goods and retail landscapes. In response, companies need to work to understand the essence of these changes by consumer segment, and adjust offerings accordingly. Reverting to business as usual is not an option because many of the self-reported changes in consumer behavior, even among wealthy consumers, appear to be sticky. The frugal consumer is here to stay.

Exhibit 6
Consumer Behavior Segmentation



Source: Booz & Company Consumer Spending Surveys 2009 and 2010; Booz & Company analysis

Endnotes

¹ Matthew Egol, Andrew Clyde, and Kasturi Rangan, "The New Consumer Frugality," *strategy + business*, March 15, 2010.

Key Findings

- A Booz & Company survey of 2,000 U.S. consumers shows that a new frugality—one that dictates trade-offs between price, brand, and convenience—has become dominant and ingrained, and will continue once the economy improves.
- Consumers across the board continue to economize everywhere.
- Wealthier consumers continue to defer purchases of discretionary items, but are not necessarily trading down in terms of price or prestige when they do buy something.
- Less-wealthy consumers are more likely to reduce spending by trading down.
- Consumer attitudes about deferring and trading down vary by category; their new purchasing behaviors are most likely to persist in those categories where they felt "unpunished."
- Consumers increasingly feel "unpunished" by buying private label and will continue to increase purchases of these items.

About the Authors

Nick Hodson is a Booz & Company partner based in San Francisco. He helps clients across industries with a particular focus on retail strategy and performance improvement. Nick formerly led the strategy function at Safeway, Inc., the \$40 billion U.S. grocer.

Marcelo Tau is a Booz & Company principal based in Chicago. He specializes in operational transformation of retail clients, including store operations, supply chain management, and organization structure.

Andrew Clyde is a Booz & Company partner based in Dallas. He is the managing partner of the Dallas office and is the practice leader for the North American energy, chemicals, and utilities practice. He serves clients across these value chains, focusing on customer- and market-back strategy and operating model design.

Matt Egol is a Booz & Company partner based in New York. He leads the firm's shopper marketing practice, and focuses on growth strategy and sales and marketing effectiveness for clients in the consumer goods, marketing services, retail, and media industries.

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